Energy

BUSINESS PLAN 2004-07

ACCOUNTABILITY STATEMENT

The Business Plan for the three years commencing April 1, 2004 was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as of February 27, 2004 with material economic or fiscal implications of which I am aware have been considered in preparing the Business Plan.

The Ministry's priorities outlined in the Business Plan were developed in the context of the government's business and fiscal plans. I am committed to achieving the planned results laid out in this Business Plan.

[original signed]

Murray Smith, *Minister of Energy*
March 5, 2004

THE MINISTRY

The Ministry of Energy works for the present and future benefit of the owners of our energy resources -- the people of Alberta. Albertans own their oil, natural gas and mineral resources. The Ministry manages the development and conservation of these resources in a responsible manner and in the public interest, within a framework of sustainable development that maximizes investment in resource development and benefits for Albertans.

The Ministry of Energy consists of the Department of Energy, the Alberta Petroleum Marketing Commission (APMC), and the Energy and Utilities Board (EUB). The Department is primarily responsible for matters related to resource development and the assessment and collection of non-renewable resource revenues. The APMC accepts delivery of the Crown's royalty share of crude oil and sells it at current market value. The Department and the APMC's operations are integrated and fully funded by the Crown. The EUB (the

Board) is an independent, quasi-judicial agency of the Government of Alberta with responsibility to regulate Alberta's energy resource and utility sectors. While the Board reports to the Alberta Minister of Energy, it makes its formal decisions independently in accordance with the statutes contained in various Acts and Regulations. The Board's operations are jointly funded by the Crown (37%) and by industry (63%).

LINK TO THE GOVERNMENT BUSINESS PLAN

The Government of Alberta's new strategic plan *Today's Opportunities, Tomorrow's Promise: A Strategic Plan for the Government of Alberta* recognizes the long term importance of sustaining energy development in the province and outlines some of the key challenges for energy development over the next 20 years, including future oil sands development, development of our natural gas in coal (coalbed methane) resources, future CO_2 management, land access for resource development, and expansion of Alberta's value added petrochemical refining capacity. The Ministry of Energy 2004-07 Business Plan includes a number of strategies aimed at addressing these key issues.

The Ministry of Energy contributes significantly to the Alberta government's three core businesses of People, Prosperity and Preservation:

People - The Department is a significant generator of provincial revenues, which support the provision of Alberta's publicly funded programs and services. Over the past 20 years, annual non-renewable resource revenues have averaged approximately $3.5 billion, with annual non-renewable resource revenues contributing between 14% and 42% of total government revenues. Global and North American price volatility and production levels are primary factors affecting revenues.

Prosperity - The energy industry is a cornerstone of Alberta's economy and a major contributor to the current and future prosperity of Albertans. The Ministry maintains a competitive fiscal and regulatory regime to encourage continued investment in Alberta's energy resources. Oil and gas industry investment reached near record levels in 2002, with $11.7 billion invested in conventional oil and gas development and $6.7 billion dollars invested in oil sands development. Investment is a key driver of job creation, business opportunities and overall prosperity for Albertans. In 2002, there were approximately 90,000 people directly employed in Alberta's upstream oil, gas and mining industries. In 2002, international energy exports, valued at $30.5 billion, accounted for 62% of the value of all Alberta international exports.

Preservation - The Ministry works within the government's framework of sustainable development to ensure that access to, development and production of energy resources occurs in a responsible manner that protects the environment and public safety. The Ministry maintains a fair and responsible regulatory framework for the energy and utility sectors that is based on the public interest of all Albertans.

The Ministry links to the following Government Business Plan goals: prosperous economy (Goal 7), financially stable government (Goal 8), and to sustaining the high quality of Alberta's environment (Goal 10).

DEPARTMENT OF ENERGY

The Department has responsibility for a diverse resource development portfolio that includes natural gas, conventional oil, oil sands, petrochemicals, electricity, coal and minerals. To effectively manage the development of these commodities, the Department has organized itself along commodity business lines. This structure builds knowledge and strengthens communication between Department business areas, and Alberta's resource industries. Importantly, this structure also allows for the direct allocation of resources and fiscal accountability by each business line, and the direct linkage of department spending with revenues generated by each of the business lines.

VISION

Alberta's competitive environment attracts investment in its energy and mineral resources for the benefit of present and future Albertans.

MISSION

Optimize the sustained contribution from Alberta's energy and mineral resources in the interests of Albertans.

CORE BUSINESSES

Core Business 1: Securing Benefits for Albertans - Secure Albertans' share and benefits from energy and mineral resource development.

Goal 1 - Optimize Albertans' resource revenue share and benefits from the development of their energy and mineral resources over the long term.

Core Business 2: Resource Development - Ensure Alberta's energy and mineral resources remain competitive and attractive to investment and development.

Goal 2 - Maintain the competitiveness of Alberta's energy and mineral resources.

Goal 3 - Secure future energy supply and benefits for Albertans, within a growing and competitive global energy marketplace.

Core Business 3: Awareness and Understanding - Inform Albertans about energy and mineral resource development and related policies, and the significance of these resources to Alberta's economy.

Goal 4 - Increase public awareness about Alberta's energy and mineral sectors.

Core Business 4: Energy for Albertans - Ensure Alberta consumers have a choice of reliable and competitively priced energy.

Goal 5 - Establish a competitive market framework that provides Albertans with competitively priced and reliable electricity and natural gas.

SIGNIFICANT OPPORTUNITIES AND CHALLENGES

Oil and natural gas price volatility affects industry production and investment and, in turn, government revenues. Price volatility seems to be increasing and time frames of cyclical changes seem to be shortening. Natural gas revenues, which have recently constituted up to 70% of total energy resource revenues, are expected to decline over the next decade as production declines. To counter these declines Alberta will need to increase production from non-conventional energy sources, such as oil sands and natural gas in coal (coalbed methane), while striving to maximize production from remaining conventional sources. Alberta's coal resources represent huge untapped potential, offering opportunities for future electricity generation through the use of clean burning technologies, or as a source of natural gas (coalbed methane). Additional research and development of new technologies will be essential to extend Alberta's energy production capacity. The long-term potential of Alberta's energy resources will need to be considered in setting research priorities, as decisions taken today set in motion change for the medium and long term future. Royalty regimes will need to be reviewed to ensure they continue to secure an appropriate share for Albertans while continuing to attract new investment. Pressure to develop both existing and new energy resources will result in an increased need to resolve conflicts with other land uses.

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Increased consultation with Aboriginal peoples aimed at resolving issues will be needed to maintain industry access. Proposed levels of oil sands development will need to address cumulative environmental effects, water availability, infrastructure needs, access to markets, and may strain current regulatory and approval processes. Similarly, natural gas in coal and the future possible discovery of a developable diamond deposit in Alberta, may require new royalty schemes, development methods and approval processes to address potential public concerns. Alberta will continue to develop and implement its action plan on climate change, while ensuring that the Kyoto-related actions of the federal government do not interfere in Alberta's resource ownership responsibilities and economic development.

STRATEGIC PRIORITIES 2004-07

Through the Ministry's review of external and internal challenges, the strategic priorities described below have been identified. These are in addition to the important ongoing core activities of the Ministry.

1. Royalty Review

Linkage: Goal 1

The Department reviews its royalty systems to ensure they remain competitive and that Albertans continue to receive a fair share of the maximized value of commodities. It is government practice to promote fiscal regime stability so that changes are made only when necessary and only when in the interest of Albertans. Our current focus is to review the existing oil sands regime and to examine whether existing regimes are appropriate for natural gas in coal (coalbed methane).

2. Gas in Association with Bitumen

Linkage: Goal 3

The Department of Energy is working with the oil and gas industry and leaseholders affected by conservation decisions related to natural gas in association with bitumen in the Athabasca area of the province. This is a unique situation and the Department is seeking fair and equitable solutions to the issues raised by these decisions, as well as technical solutions that would allow for economic and expedient production of both resources.

3. Electricity and Natural Gas Retail Markets

Linkage: Goal 5

Government is committed to a market framework that provides security of supply and reliability for the benefit of consumers. The Department will continue to assess the functioning of the natural gas and electricity markets to encourage competitive market conditions that benefit Albertans.

An important component of competitive markets is efficient and adequate transportation systems to bring products to consumers. The Department will review and monitor the transmission and distribution systems for electricity and propose public policy as needed, to ensure those transportation systems deliver efficient and reliable service in the interest of consumers.

4. Implementing an Improved Resource Development Regulatory Framework

Linkage: Goal 2

A cross-ministry review of the environment, energy and resource regulatory framework used by the Government of Alberta to develop and manage Alberta's natural resources is underway. Revisions to Alberta's regulatory approval framework will be aimed at collaborative direction setting and management, improving delivery of regulations, and reducing costs of regulatory requirements for all parties over time, while maintaining Alberta's high environmental standards and improving Alberta's business climate. The current review includes regulatory and administration processes delivered by the Department, the Energy and Utilities Board, and the Ministries of Environment and Sustainable Resource Development.

5. Land Access and Aboriginal Relations

Linkage: Goals 2 and 3

The Western Sedimentary Basin (WSB) is becoming a mature basin for conventional oil and gas. As a result, pool sizes are becoming smaller and harder to find. To sustain future production from these sources we need to ensure surface access levels throughout the province are maintained or increased and encourage exploration and development in areas which, to date, have seen limited development (e.g., front ranges). We also need to secure and enhance access to support development of new alternative sources such as natural gas from coal (coalbed methane).

Ensuring right of access of resource developers to oil, gas and mineral leases located on First Nation "traditional use" lands will continue to be a priority of the Department. The Department will continue to focus on consultations and fostering capacity building in Aboriginal communities to ensure they are able to participate in, and benefit from, energy resource development.

6. Climate Change Action Plan

Linkage: Goal 2

Implementation of the Kyoto Protocol by the Federal Government for the first Kyoto commitment period - 2008-2012 - and negotiations for subsequent Kyoto commitment periods will continue to be a focus and concern for the department. Alberta will continue to develop and implement its action plan on climate change. As part of this plan, the Department will focus its activity on carbon management initiatives and the development of the energy related sector agreements.

PERFORMANCE MEASURES

The Department's business plan focuses on outcome measures. This is consistent with government's direction of shifting from measuring the activities of government, to measuring outcomes or effects related to its activities. Department outcomes are the desired collective effect of our actions, processes, programs and outputs on the Alberta public - the owners of Alberta's resources - and the energy and mineral industries who develop the resources on their behalf. The Department's performance measures track our progress towards achieving these outcomes.

While the Department does not directly control outcomes, it does attempt to achieve desired results through the actions and outputs of its various programs. External factors outside the Department's influence, such as market prices for commodities, will affect the Department's ability to achieve some outcomes.

CORE BUSINESSES, GOALS, STRATEGIES AND MEASURES

The following goals, strategies and performance measures have been established for each of the Department's core businesses.

Core Business One: Securing Benefits for Albertans

GOAL ONE

Optimize Albertans' resource revenue share and benefits from the development of their energy and mineral resources over the long term.

What it means

Albertans receive their share of energy and mineral resource development through royalties, freehold mineral taxes, rentals and bonuses paid by industry and collected by the Department. Over the past 20 years, non-renewable resource revenues have averaged approximately $3.5 billion per year, and have made up between 14% and 42% of total annual government revenues. Alberta's resource development

system is designed to balance the need to capture a fair share of industry revenues from the development of provincial resources, while ensuring industry retains sufficient revenues to continue to invest in future development of these resources. Albertans benefit from this investment through sustainable resource revenue used to finance critical public programs, through employment and business opportunities created, and through provincial and local taxes collected from the industry.

Strategies

- Regularly review Alberta's royalty regime, with a current focus on oil sands and the applicability of existing natural gas regimes to non-conventional gas.
- Work with leaseholders affected by conservation decisions related to natural gas in association with bitumen in the Athabasca area of the province to find fair and equitable solutions to the unique issues raised by these decisions.
- Directly develop, manage and support, in-house, those department information management systems that are critical to ensuring that Albertans continue to receive their share of resource revenues.

Performance Measures

Sharing the Profits from Resource Development - *Target: 20% to 25% of industry's annual net operating revenue.*

For oil and natural gas, an indicator of the balance described above is the portion of industry's annual net operating revenue that is paid to the Crown as royalty.

	Last Actual (2002)	Target 2004	Target 2005	Target 2006
Crown Revenue Share (Three year moving average - calendar year)	23%	20-25%	20-25%	20-25%

Source: The Canadian Association of Petroleum Producers Statistical Handbook for Canada's Upstream Petroleum Industry has replaced Ross Smith Energy Group's economic model as the data source for this measure.

Crown Revenue Assurance - *Target: To ensure the completeness and accuracy of Albertans' resource revenues - audit adjustments to be less than 2.0%.*

The Department audits Crown resource revenues and allowable costs to ensure these are complete, accurate and fairly valued. This performance measure expresses the annual total dollar value of audit adjustments as a percentage of reported Department resource revenues from royalties and Freehold Mineral Tax. It is a measure of industry's understanding of, and compliance with, the Department's resource revenue regime.

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Audit Adjustments as a Percentage of Department Resource Revenues (Three-year moving average)	1.9%	Less than 2%	Less than 2%	Less than 2%

Source: Compliance and Assurance, Department of Energy

Notes: Resource revenues are based on the fiscal revenues as reported in the externally audited Annual Report. Audit adjustments are accumulated on the basis of completed audits in the current year. These audits consist of prior year's filings subject to the limitations of the *Mines and Minerals Act.*

Core Business Two: Resource Development

GOAL TWO

Maintain the competitiveness of Alberta's energy and mineral resources.

What it means

Alberta needs to maintain competitive fiscal and regulatory regimes that attract industry investment. Predictability, certainty, stability and a well-developed infrastructure are all features that make Alberta's resource development system a strong competitor for industry investment. Over the period 1997 to 2002, upstream oil and gas industry investment (including oil sands) averaged approximately $15 billion per year. Investment increased dramatically in recent years as high commodity prices, combined with Alberta's favourable investment climate, led to increased levels of exploration, drilling and development. The Department assesses the current and future state of Alberta's resource commodities, identifies development opportunities, and encourages industrial integration and maximization of in province value-added resource upgrading.

Strategies

- Advocate nationally and internationally for Alberta's interests and rights to develop and manage energy and mineral resources, including related emissions.
- Position and market Alberta as the 'hub' for transporting northern gas to markets.
- Develop a strategy for the long-term development of the oil sands.
- Collaboratively work with the Ministries of Environment and Sustainable Resource Development, and the Energy and Utilities Board to provide effective integrated direction setting and management policy direction and to implement streamlined regulatory processes for resource development.
- Enhance in province value-added resource upgrading through development of integrated industrial complexes, and new petrochemical feedstock supplies through integration with oil sands upgrading and processing.
- Advocate for optimal tolls, tariffs and access to pipelines and wires that transport Alberta energy resources to North American markets.
- Work with Aboriginal communities, resource developers, stakeholders and other levels of government to implement the Aboriginal Policy Framework, conduct Crown consultation with First Nations and create opportunities for Aboriginal people to participate equitably in the resource economy of Alberta.
- Work with industry and other departments to implement the Mineral Development Strategy.
- Work with other departments, the Energy and Utilities Board and the Natural Resources Conservation Board to draft a single integrated regulation that incorporates mining, safety and some approvals for non-energy minerals.
- Work with the Ministry of Environment and industry to implement Alberta's action plan for climate change and participate in the development of agreements for the energy sector.

Performance Measure

Resource Development - *Target: Annual industry investment in the upstream oil and gas industry will be equal to or greater than $15 billion.*

Continued investment in Alberta's energy sector demonstrates the competitiveness and attractiveness of resource development in Alberta.

	Last Actual (2002)	Target 2004	Target 2005	Target 2006
Upstream industry investment	$18.5 billion	Equal to or greater than $15 billion	Equal to or greater than $15 billion	Equal to or greater than $15 billion

Source: Canadian Association of Petroleum Producers.

* Upstream investment includes expenditures made during the exploration and development of the resource. These costs include geological and geophysical, land, drilling, field equipment, enhanced oil recovery, plants and miscellaneous development expenses.

GOAL THREE

Secure future energy supply and benefits for Albertans, within a growing and competitive global energy marketplace.

What it means

Alberta has long enjoyed abundant sources of conventional oil and gas. In the future, as conventional sources decline other sources of energy must be developed to ensure Alberta has a continued supply of energy. These other sources may include natural gas in coal (coalbed methane), expanded oil sands development and cogeneration of electricity, the application of clean burning technologies to coal, and the development of alternative sources of energy (wind, hydro, biomass). New technologies will also be needed to improve the rate of recovery of our existing conventional resources. Diversification of energy sources will largely be market driven and, therefore, Alberta's energy resources must remain competitive in the broader global energy market. The Department works within the province's framework of sustainable development to maintain or enhance resource exploration and development opportunities, while ensuring that development occurs in a responsible manner that protects the environment and public safety.

Strategies

- Work with other ministries to develop Alberta's natural resources in a sustainable, integrated and environmentally responsible manner through ongoing participation in broad government initiatives, such as the rural development initiative, and through Integrated Resource Management initiatives for the front range and Southern Alberta.
- Work collaboratively with other ministries to implement Water for Life: Alberta's Strategy for Sustainability, ensuring reliable quality water supplies for a sustainable economy.
- Ensure full energy and mineral resource development opportunity costs are considered in land use decisions and that land is not unnecessarily excluded from exploration and development opportunity in the process of developing Alberta's conservation objectives.
- Expand our natural gas reserves by encouraging exploration in areas that have not received sufficient evaluation to date (e.g., front range).
- Analyze economics and implement changes, where appropriate, to the fiscal and tenure regimes to encourage further development of conventional and non-conventional resources.
- Lead a cross-ministry team including Agriculture, Food and Rural Development, Finance, Energy, Environment, Sustainable Resource Development, and Innovation and Science that will consult with public, industry and other stakeholders to determine if existing regulations and policy are appropriate for the responsible development of natural gas in coal (coalbed methane).
- Provide strategic research direction to the Alberta Energy Research Institute and other research organizations. Support implementation of the Alberta Energy Research Strategy in the areas of: oil sands upgrading; clean coal technology; enhanced recovery of conventional and unconventional resources; CO_2 management; water management; and alternative energy.

- Improve recoveries of conventional oil reserves and reduce emissions through expansion of commercial CO_2 schemes, and by encouraging the development and application of technology aimed at enhanced recovery.
- Lead the establishment of processes and plans with industry and departments from the Alberta and federal governments to assure the security preparedness of Alberta's energy infrastructure.
- Implement an e-tenure process that results in the electronic handling of applications, posting requests, bidding, transfers and agreements.

Performance Measure

Energy Resource Portfolio Diversification - *Target: Diversification of energy production.*

	Baseline 2000	Last Actual (2002)	Target 2006	Outlook 2005	Outlook 2010
Oil Production (thousands of bbl/d)					
Conventional	546.1	497.3		483.1*	434.1*
Extended Oil Recovery+	202.0	163.1		127.3++	88.2++
Pentanes/condensate	144.5	128.7		151.03*	138.4*
Non-conventional (oil sands)	604.7	740.3		1,132.7*	1,705.4*
Natural Gas Production (Tcf/yr)			Increased		
Conventional	5.19	5.02	diversification of	4.99*	4.49*
Non-conventional (natural gas in coal/coalbed methane)	–	0.005	energy production	0.01**	0.26**
Electricity Generating Capacity (MW)++					
Coal (conventional)	5,638	5,659		5,860	
Natural Gas (conventional)	1,319	1,353		1,600	
Natural Gas (cogeneration)	1,658	2,769		3,220	Not
Fuel Oils	8	8		8	Available
Renewables (hydro, wind, biomass)	1,047	1,109		1,312	

Sources:

* Alberta's Reserves 2002, Supply and Demand Outlook 2003-2012, Alberta Energy and Utilities Board.

** National Energy Board: Canada's Energy Future Supply; Scenarios for Supply and Demand to 2025; Supply Push Scenario.

\+ Includes all department programs aimed at extending the productive life of mature conventional oil fields

++ Alberta Department of Energy estimates.

Core Business Three: Awareness and Understanding

GOAL FOUR

Increase public awareness about Alberta's energy and mineral sectors.

What it means

The Alberta Crown (government) owns 81 per cent of the province's mineral/energy rights. The remaining 19 per cent are owned by the federal government on behalf of First Nations or in national parks, and by individuals and companies. As resource owners, Albertans need to be aware of Alberta's supply of energy and mineral resources and the importance of these resources to Alberta's economy and society. Albertans also need to be informed about the critical importance of ongoing resource development, the need to access future resources and technological advances made by the energy industry.

Strategies

- Work with industry and the education sector to increase awareness of Alberta's energy and mineral resources, industry practices, pressures affecting access to the resource, technological advances made by the energy industry, and the importance and economic significance of the energy and mineral sectors, today and in the future.
- Inform Albertans about the critical importance of ongoing resource development and future needs and opportunities for energy and mineral resource development from conventional and non-conventional sources.
- Work with the Alberta electric industry to increase consumer understanding of Alberta's competitive electricity marketplace.

Performance Measure

Albertans' Understanding of Alberta's Energy and Mineral Resources and their Economic Significance - *Target: To increase Albertans' awareness and understanding of energy resources.*

An element has been added to this measure to track public recognition of the importance of the energy sector to Alberta's economic health. Surveying will be conducted every second year.

	Last Actual* (2003)	Target 2005	Target 2006	Target 2007
Albertans' knowledge of the role of energy and mineral resources in Alberta's economy.	37%	Increasing awareness	n/a	60% or higher
The provincial government is doing a good or very good job of providing Albertans with energy information.	60%	Increasing awareness	n/a	70% or higher
Albertans' who recognize the role of the energy sector in the province's economic health as very important.	81%	Maintain awareness	n/a	80% or higher

Source: * Banister Research & Consulting Survey.

Core Business Four: Energy for Albertans

GOAL FIVE

Establish a competitive market framework that provides Albertans with competitively priced and reliable electricity and natural gas.

What it means

Alberta has restructured its electric industry to provide an efficient, competitive marketplace for electricity that encourages the development of new power generation and offers all consumers choice and reliability of supply. Retail natural gas has been open to choice since 1996 and the department continues to strengthen its provisions for retail customer choice, having recently established similar rules for the natural gas and electricity retail markets. Through the *Natural Gas Price Protection Act* and regulation, the Alberta government can also provide consumers with relief from high natural gas prices.

Strategies

- Enable and foster competitive wholesale and retail markets for electricity, and a competitive retail market for natural gas to provide Alberta consumers with choice, innovative services, reliability and competitive prices.
- Provide consumers, industry and other government agencies with clear and timely communication of changes in the natural gas and electric industries.

- Develop and implement effective legislation, policy and processes to ensure predictability and certainty to industry, and reliable supply to consumers.
- Ensure that the electric transmission and distribution systems are reliable and sufficient, and provide fair and open access.
- Work with other ministries, industry and the education sector to encourage energy conservation and the choice of a range of energy sources, including both renewable and non-renewable.

Performance Measures

New Power Generation - *Target: Alberta's net supply of electricity will increase through industry investment.*

Additional electricity supply has, and will continue to be needed to meet Alberta's growing demand.

	Last Actual (2002)	Target*** 2004	Target*** 2005	Target*** 2006
Installed Generating Capacity* (MW)	10,898	11,600	12,000	12,400
Peak Demand** (MW)	8,570	9,070	9,320	9,570
Margin (net supply) (MW)	2,328	2,530	2,680	2,830

Source: Compiled by Energy based on EUB, Independent System Operator (ISO) and industry information.
Note: Net supply of electricity will increase for 2004-07.
MW = Megawatts
* The sum of the maximum continuous ratings of all electricity generation facilities connected to the Alberta interconnected electric system, excluding the capacity of interties with British Columbia and Saskatchewan.
** Peak Demand is the highest recorded system demand in a year as recorded by the Independent System Operator (ISO).
*** Department of Energy. Numbers based on estimated average annual growth of 400MW.

Electricity Restructuring - *Target: Alberta will remain a leader in implementing a competitive marketplace for electricity.*

The RED (Retail Electricity Deregulation) Index ranked Alberta as first in Canada, fourth in North America and sixth in the world, as of April 2003, for electric industry restructuring performance.

	Last Actual (2003)	Target 2004	Target 2005	Target 2006
CAEM - Red Index Ranking of Alberta's Restructuring In North America	4	Top 10	Top 10	Top 10

Source: Center for Advancement of Energy Markets (CAEM).
Note: A total of 64 Canadian and U.S. jurisdictions were assessed in 2003.

Annual Residential Natural Gas Price - *Target: Annual average residential natural gas price for Alberta is less than the annual average national residential price.*

This measure compares the price Albertans are paying for natural gas with other jurisdictions by comparing the annual average Alberta Residential Natural Gas Price (ARGP) with the annual average National Residential Natural Gas Price (NRGP). To remain competitive, Alberta's price should not exceed the national price.

	Last Actual (2003)	Target 2004	Target 2005	Target 2006
Annual Average ARGP ($/GJ)	8.63	Annual ARGP not to exceed	Annual ARGP not to exceed	Annual ARGP not to exceed
Annual Average NRGP ($/GJ)	10.91	annual NRGP	annual NRGP	annual NRGP

Source: Department of Energy
Note: Numbers are quoted in $/GJ and are inclusive of gas cost recovery rates (commodity charge), variable and fixed delivery rates. Rates include various rate riders (i.e., company owned storage and production rate riders). Both rates exclude GST, PST, franchise fees, and government rebates. This measure is calculated on a calendar year basis using a simple average of monthly rates and annual consumption of 135GJ. Information for the chart was obtained from utility companies.

The ARGP is determined using an average of the delivered cost of natural gas from the major utilities to Alberta residents. The NRGP excludes Alberta and is determined using an average of the delivered cost of natural gas from utilities serving the cities of Toronto, Sarnia, Winnipeg, Regina and Vancouver.

Organizational Capacity and Effectiveness

Successful delivery of the Department's core businesses is dependent on maintaining and building a strong organization with the knowledge and capacity to respond to changing future business and economic circumstances affecting the development of Alberta's energy and mineral resources. A separate Department Organizational Capacity goal, which supports all of the Department's Core Businesses, has been established to address this requirement.

GOAL SIX

Build an organizational environment for success.

What it means

The Department recognizes the challenge and importance of maintaining and building organizational capacity to respond effectively to changing business needs. Organizational capacity means having the right resources, people, processes and tools to deliver our core businesses.

Strategies

- Ensure the Department's organization, processes and budget are aligned with the strategic direction and growth of our business.
- Implement human resource and workforce planning strategies that enable us to retain, attract and develop our employees, resulting in improved staff knowledge, accountability, competencies, skill sets and health and wellness.
- Safeguard the Department's staff and physical assets through testing and maintenance of emergency response and business resumption plans.
- Ensure easier access to and secure exchange of, information required by industry and government.
- Enhance information management through the implementation of increased electronic service delivery (e-business) processes.
- Re-invest in critical department IT systems to ensure these systems are current.
- Continue to provide clear communication and consultation with industry on business rules and processes.

Performance Measure

Industry Satisfaction with Department Services and Electronic Information Management- *Target: Industry satisfaction 80% or higher.*

The Department measures industry satisfaction to identify opportunities for improvement and to keep pace with changing requirements. Surveying will be conducted every two years.

	Last Actual (2003)	Target 2005	Target 2006	Target 2007
Satisfaction with department services	84%	80% or higher	n/a	80% or higher
Satisfaction with electronic information management	93%	80% or higher	n/a	80% or higher

Source: Environics West surveys.
Note: In 2000, a Citizens First survey was conducted by Erin Research Inc. to measure satisfaction with Canadian public and private sector services. The average general rating was 51% for public sector services and 63% for private sector services.

ALBERTA ENERGY AND UTILITIES BOARD

The Alberta Energy and Utilities Board (EUB) is an independent, quasi-judicial agency of the Government of Alberta with responsibility to regulate Alberta's energy resources and utility sectors. Although the EUB (the Board) is responsible to the Minister of Energy, it makes its formal decisions independently and in accordance with the various Acts and Regulations.

The Board is responsible for the policy and direct administration of the following statutes: *Alberta Energy and Utilities Board Act, Coal Conservation Act, Energy Resources Conservation Act, Hydro and Electric Energy Act, Oil and Gas Conservation Act, Oil Sands Conservation Act, Pipeline Act, Public Utilities Board Act, Turner Valley Unit Operations Act* with consequential regulations. The Board has rate regulation responsibilities under the *Electric Utilities Act* and the *Gas Utilities Act* and other legislation that specifically empowers the Board to carry out certain functions.

VISION

The EUB's vision is to have a regulatory framework that inspires public confidence.

MISSION

To ensure that the discovery, development and delivery of Alberta's energy resources and utilities services take place in a manner that is fair, responsible and in the public interest.

CORE BUSINESSES

Core Business 1: Adjudication and Regulation

Goal 1 - A fair and responsible regulatory framework for the energy and utility sectors.

Goal 2 - Industry complies with energy and utility regulatory requirements.

Goal 3 - Prompt and appropriate resolution of stakeholder conflicts and issues.

Core Business 2: Information and Knowledge

Goal 4 - Ensure accurate, comprehensive and current information is readily available to stakeholders.

SIGNIFICANT OPPORTUNITIES AND CHALLENGES

Increased industry activity, rising public expectations, regulatory changes and a broadening client base present different, and additional, opportunities and challenges to the Board.

These challenges and opportunities are driven by the following changes: increasing stakeholder awareness and expectations; the restructuring of gas and electric markets; and increase in the scale and pace of the development of Alberta's oil sands resource.

Public safety and regulatory compliance continue to be priorities for the citizens of Alberta and the Board. The Board is faced with increasing stakeholder expectations and needs surrounding health, safety, environmental protection and resource conservation. As the amount of activity in the energy and utility sectors increases, the Board continues to look for ways to ensure that stakeholders are aware of, and engaged effectively in, the appropriate and relevant aspects of the Board's activities.

The Board, the Ministries of Environment and Sustainable Resource Development, and the Department of Energy are collaborating to improve the regulation of a number of resource development sectors.

STRATEGIC PRIORITIES 2004-07

The strategic priorities described below have been identified through the Board's review of external and internal challenges. These are in addition to the important ongoing core activities of the Board and focus on challenges that are considered of greatest importance.

1. Public Safety and Regulatory Compliance

Linkage:
Goals 1, 2 and 3

The Board has systems in place that assure industry compliance with regulatory requirements. They ensure that the discovery, development and delivery of Alberta's energy resources and utilities services take place in a manner that is fair, responsible and in the public interest.

In addition, in January 2000, the Board formed the Advisory Committee on Public Safety and Sour Gas to examine Alberta's sour gas regulatory system, consult with Albertans on issues surrounding sour gas development, and report its findings and recommendations to the Board. The Advisory Committee concluded that Alberta has an extensive and comprehensive regulatory system in place for sour gas development, but that improvements must be made. The Board accepted the 87 recommendations of the Advisory Committee and made a commitment to address them all. The Board will continue to work with stakeholders to address the recommendations.

2. Regulation - Utilities and Energy

Linkage:
Goals 1, 2 and 3

In the near term, the focus is on regulatory changes associated with restructuring of the electric and natural gas industries. In addition to dealing with emerging issues respecting areas previously regulated, the Board has assumed new responsibilities for the regulation of municipal utilities and the development of a Settlement System Code for natural gas. The Board Chair has also assumed the oversight of the MSA (Market Surveillance Administrator) function.

In order to be properly resourced to handle an increased and more complex workload, the Board will be hiring additional staff and employing consultants when additional expertise is required.

The Board is continuing to explore ways to make application procedures more streamlined and effective.

In conjunction with government departments that share responsibility to regulate resource development activities, the Board will develop a plan for an improved regulatory framework based on a streamlined consolidated approach to the delivery of regulatory processes.

3. Energy Sources - a Changing Focus

Linkage:
Goals 1, 2, 3 and 4

The Board will respond to evolving oil sands industry activity in an effective and timely manner. Since 1996, $23 billion has been invested in oil sands development, $7 billion are currently under construction and a further $30 billion in investment has been announced over the next 10 years. The Board is establishing a regional office in Fort McMurray to support an expanded role in handling regulatory development, including related Aboriginal relations and environmental issues in the mineable oil sands area. The Board will continue its work on the potential risk to bitumen recovery from producing associated gas. The Board has undertaken a Bitumen Conservation Project in order to meet its conservation mandate, while considering changes to its operational policies and processes as new technology and information emerge.

The Board will also continue to be involved in emerging issues associated with the determination of reserves for, and the regulation of, coalbed methane. The Board is also participating with other government agencies in implementing a provincial water strategy. The maturity of the conventional basin (nature and extent of remaining reserves) will also be reviewed.

4. Investing in People

Linkage: Goal 5

The Board recognizes the need to attract and retain well-qualified staff in a very competitive market. Through our people, we are able to realize the vision and mission of the Board.

PERFORMANCE MEASURES

The Board utilizes a tier system of measures. The first level focuses on outcome measures. This is consistent with Government's direction of shifting from measuring the activities of government, to measuring the outcomes or effects of government's activities. Board outcomes are the desired collective effect of our actions, processes, programs and outputs on the Alberta public - the owners of most of Alberta's energy resources. The Board's performance measures track our progress towards achieving these outcomes.

While the Board does not directly control outcomes, it does attempt to achieve desired results through the actions and outputs of its various programs. External factors outside the Board's control may affect the achievement of some outcomes.

The second level of measures (supplemental measures) focuses on the Board's efficiency in meeting its responsibilities. These measures are available on the Board website at www.eub.gov.ab.ca. Examples of supplemental measures include: Application Turnaround Time for Routine Energy Facility Applications; and Progress Reports on Incorporation of Public Safety and Sour Gas recommendations.

CORE BUSINESSES, GOALS, STRATEGIES AND MEASURES

Core Business One: Adjudication and Regulation

The Board adjudicates and regulates matters related to energy and utilities within Alberta to ensure that the development, transportation and monitoring of the province's energy resources are in the public interest. In addition, the Board balances the interests of consumers and utilities in establishing regulated rates and terms and conditions of service. The Board provides this assurance of the public interest through its activities in the application and hearing process, regulation, monitoring, and surveillance and enforcement.

GOAL ONE

A fair and responsible regulatory framework for the energy and utility sectors.

What it means

A primary Board role is to adjudicate and regulate energy developments and utility rates in the public interest. Public interest to the Board means working for Albertans - everyone in this province, including landowners, rural and urban residents, employees and employers, plus the companies and industries the Board regulates. The Board's ongoing responsibility is to provide a stable and competent regulatory environment, resource conservation enforced by efficient production requirements, and a level playing field. The Board also ensures that industry is accountable for meeting operating requirements, for safe and efficient regulated utility services at rates that are fair and reasonable and providing a public forum for people who may be adversely affected by proposed developments and rate changes.

Strategies

- Ensure energy and utility hearings are efficient, effective and open to broad public participation.
- Review existing Board requirements for continued relevance and streamlining opportunities.
- Continue to work with Alberta government departments on gaps, overlaps and inconsistencies in respect of jurisdiction.
- Develop and implement appropriate responses to emerging issues.

Performance Measure

Timeliness of Hearing Decisions - *Target: At least 95% of decisions issued in 90 days or less from the end of the hearing.*

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Percent of decisions issued in 90 days or less from the end of the hearing.	97%	95%	95%	95%

GOAL TWO

Industry complies with energy and utility regulatory requirements.

What it means The Board oversees the safe, responsible development of Alberta's energy resources and regulated utility services at rates that are fair and reasonable. As part of this process, the Board regulates over 110,000 operating oil and gas wells, over 16,500 oil batteries and associated satellites, over 700 gas plants, and about 317,000 kilometers of pipeline. As such, the public relies on the Board for public safety and environmental protection regarding energy development. The Board is also in the process of implementing standards for quality and reliability of the restructured utility services which may eventually require penalty payments for failure to meet standards.

Strategies

- Focus on high-risk operations, problem operators and areas of intense development, to address public concerns with energy activities.
- Implement mechanisms for effective monitoring of the financial and service performance of regulated utilities in a restructured industry.
- Ensure industry has effective response plans in place to appropriately respond to emergencies by developing an emergency response planning guide and updating internal processes and regulatory requirements.
- Develop a strategy with respect to the maturity of the conventional oil and gas basin.

Performance Measures

Reduction in Percentage of Regulatory Noncompliance Incidents - *Target: Maintain less than 3.5% major and serious unsatisfactory incidents of regulatory noncompliance as identified by field inspections.*

A major unsatisfactory inspection is one that finds a contravention of regulation(s) that an operator has failed to address and is thereby having, or may have, a significant impact on the public and/or environment. A serious unsatisfactory inspection is one that finds a total disregard for regulation(s) and is thereby having or may have a significant impact on the public and/or environment. The total number of inspections for 2003 is projected to be approximately 10,000.

	Last Actual (2002)	Target 2004	Target 2005	Target 2006
Percent of major and serious unsatisfactory incidents of non-compliance related to field inspection results.	3.9%	3.5%	3.5%	3.5%

Note: For 2002 and future years, information from the field will be reported on a calendar year basis.

Flaring and Venting Reduction - *Target: Reduction in solution gas flared and vented in accordance with current and future Clean Air Strategic Alliance (CASA) recommendations.*

This measure demonstrates the effectiveness of regulatory requirements and industry practices in achieving an appropriate degree of conservation of solution gas by reducing flaring and future flaring and venting thus ensuring public safety and environmental protection.

	Last Actual (2002)	Target 2004	Target 2005	Target 2006
Reduction in solution gas flared (base year 1996)	62%	Minimum 50% - under review by CASA		
Reduction in solution gas vented (base year 2000)	30%	Targets to be set - under review by CASA		

Note: Targets established by CASA are on a calendar year basis.

GOAL THREE

Prompt and appropriate resolution of stakeholder conflicts and issues.

What it means

The Board strives to improve communication among the active players in Alberta's energy and utility sectors: the public, the energy and utility companies, and the government and the Board. The Appropriate Dispute Resolution (ADR) initiative provides an option for key stakeholders to promptly settle difficult disputes prior to going to a hearing. The Board is also actively involved in encouraging the development of new "synergy" groups and in supporting existing groups. Membership in these groups includes the community, the industry and government agencies such as health authorities, local disaster services and the Board. More than 50 such groups now exist in the province, pro-actively working to resolve energy development issues.

Strategies

- Ensure consumer complaints respecting utility rates and service are adequately tracked and addressed.
- Track and identify issues which need to be rectified by the Board.
- Continue to evaluate and review the process to facilitate prompt and appropriate handling of applications (Enhanced Case Management).
- Continue to address public safety and regulatory compliance concerns through continued incorporation of the recommendations of the Provincial Advisory Committee on Public Safety and Sour Gas and continued regulatory compliance and enforcement operations.
- Support movement to greater customer choice in the restructured natural gas and electricity markets.
- Participate in the cross ministry review and consultation process to examine the rules and regulations with regard to coalbed methane, also referred to as Natural Gas from Coal.

Performance Measures

Appropriate Dispute Resolution - *Target: At least 90% of participants rank the quality of service from EUB staff as satisfactory or better.*

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Percent of participants that ranked the quality of service from EUB staff to be satisfactory or better.	91%	90%*	90%*	90%*

* The ADR project is in pilot phase and the estimate/target is set at 90%

Timeliness of Hearing Decisions - see Goal 1 Performance Measure.

Core Business Two: Information and Knowledge

The information and knowledge responsibility of the Board includes the collection, storage, analysis, appraisal, dissemination and stakeholder awareness of information. Open access to information develops awareness, understanding and responsible behavior and allows the Board and stakeholders to make informed decisions about energy and utility matters.

GOAL FOUR

Ensure accurate, comprehensive and current information is readily available to stakeholders.

What it means

This goal aims to ensure the availability of energy and mineral resource information to support responsible development. In 2003-04 the Board issued its report, *Alberta's Reserves 2002 and Supply/Demand Outlook 2003-2012*. This report assesses the state of reserves and supply and demand for crude oil, crude bitumen, natural gas, natural gas liquids, sulphur and coal. It also includes estimates of reserves, production volumes for 2002 and a 10-year supply and demand forecast for each resource. The Board continues baseline mapping and thematic studies in support of metallic/non-metallic minerals, diamonds, industrial minerals and aggregate (sand and gravel).

Using technology to support collaborative work with stakeholders is another business priority at the Board. By leveraging technology, we are able to streamline processes, realize more efficient information management and help ensure that we are working for Albertans in the most proficient way possible. This priority has been reflected in the launch of the Field Surveillance Inspection System and the Petroleum Registry of Alberta. As well, the Integrated Applications Program began a new phase that included reaching out to consult with stakeholders.

Strategies

- Enhance the collection and dissemination of information with stakeholders through secure electronic service delivery (e-business) processes.
- Enhance capabilities to access information using Geographic Information Systems (GIS) technology.
- Develop and maintain credible energy resource and reserve estimates, and annual supply/demand forecasts of crude bitumen, crude oil, natural gas (including coalbed methane), natural gas liquids and coal. This work will also include ultimate potential estimates for certain commodities. The reserve/supply figures will serve as indicators of basin maturity.
- Complete a mineral mapping plan of northern Alberta for stakeholders' use.
- Work with other government and non-government agencies offering programs and services aimed at youth to provide public safety awareness associated with energy development in high energy activity regions of the province.
- Inform Albertans on the key issues surrounding energy and utility development through continued open house sessions in Alberta and development of mechanisms for improving customer education on utilities.
- Continue to improve information quality through additional screening, auditing and enforcement of data submission requirements.
- Ensure Board data integrity by developing a strategy to migrate the 80+ mainframe applications into the client-server environment.

Performance Measure

Increase Stakeholder Satisfaction with EUB Information - *Target: Increase the business value of information to stakeholders.*

	Last Actual (2002-03)	Target 2004-05*	Target 2005-06*	Target 2006-07*
Stakeholder satisfaction with EUB data information and access to it.	71%	73%	74%	75%

* Since the sample size is small, the targets are set as interim until additional survey results have been assessed.
Note: In 2002-03, the first year of the survey, over 1,500 stakeholders were surveyed and 246 responded.

Organizational Capacity and Effectiveness

Successful delivery of the Board's core businesses is dependent on maintaining and building a strong organization with the knowledge and capacity to respond to changing future business and economic circumstances affecting the development of Alberta's energy, utility and mineral resources. A separate EUB Organizational Capacity goal, which supports the Board's two core businesses, has been established to address this requirement.

GOAL FIVE

Build an organizational environment for success.

What it means EUB Organizational Capacity and Effectiveness addresses the challenge and importance of maintaining and building organizational capacity to respond to changing business needs. Organizational capacity means having the right resources, people, processes and tools to deliver our two core businesses.

Strategies

- Ensure administration, management and accountability mechanisms are in place to enable the Board to effectively manage and continually improve its business.
- Support the establishment of a centralized government internal audit function.
- Implement leadership process plans, staffing, and compensation strategies that ensure a quality workforce that meets the Board needs now and into the future.
- Continue to improve services focused on information technology projects and infrastructure.

Performance Measure

Staff Retention - *Target: Maintain the percentage of voluntary turnover at a level equal to or lower than that reported by industry.*

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Percent of voluntary turnover.	4.8%	At a level equal to or lower than that reported by industry		

Note: Voluntary turnover is defined as all terminations excluding downsizing, layoffs, temporary staff, casual and contract employees. Voluntary turnover reported by industry will be obtained from the Mercer Total Compensation Survey (MTCS).

EXPENSE BY CORE BUSINESS

(thousands of dollars)

	Comparable 2002-03 Actual	Comparable 2003-04 Budget	Comparable 2003-04 Forecast	2004-05 Estimates	2005-06 Target	2006-07 Target
Securing Benefits for Albertans	35,704	34,969	34,969	35,627	35,627	35,627
Resource Development	19,085	28,071	28,071	28,572	29,572	29,572
Awareness and Understanding	2,136	2,515	2,515	2,551	2,551	2,551
Energy for Albertans	4,814	4,711	4,711	4,794	3,794	3,794
Adjudication and Regulation	58,860	63,967	65,821	69,154	71,044	72,304
Information and Knowledge	34,569	42,534	43,880	40,614	41,724	42,464
Orphan Well Abandonment*	8,439	8,000	17,900	10,000	10,000	10,000
MINISTRY EXPENSE	163,607	184,767	197,867	191,312	194,312	196,312

* The Alberta Oil and Gas Orphan Abandonment and Reclamation Association was delegated on March 30, 2001 the authority to administer the abandonment and reclamation of wells, facilities and pipelines which have no registered owner.

MINISTRY STATEMENT OF OPERATIONS

(thousands of dollars)

	Comparable 2002-03 Actual	Comparable 2003-04 Budget	Comparable 2003-04 Forecast	2004-05 Estimates	2005-06 Target	2006-07 Target
REVENUE						
Non-Renewable Resource Revenue						
Natural Gas and By-Products Royalty	5,125,486	3,480,000	5,355,000	3,373,000	3,058,000	2,610,000
Crude Oil Royalty	1,176,633	502,000	938,000	558,000	458,000	401,000
Synthetic Crude Oil and Bitumen Royalty	183,242	103,000	187,000	100,000	121,000	196,000
Bonuses and Sales of Crown Leases	565,550	679,000	898,000	694,000	659,000	653,000
Rentals and Fees	152,711	144,000	156,000	145,000	143,000	141,000
Coal Royalty	9,991	11,000	8,000	9,000	9,000	9,000
Alberta Royalty Tax Credit	(83,286)	(143,000)	(96,000)	(95,000)	(92,000)	(87,000)
Total Non-Renewable Resource Revenue	7,130,327	4,776,000	7,446,000	4,784,000	4,356,000	3,923,000
Freehold Mineral Rights Tax	201,556	214,000	290,000	204,000	173,000	161,000
Investment Income	1,151	1,250	1,250	1,250	1,250	1,250
Industry Levies and Licences	78,440	79,509	92,409	78,509	78,509	78,509
Other Revenue	10,352	500	500	500	500	500
MINISTRY REVENUE	7,421,826	5,071,259	7,830,159	5,068,259	4,609,259	4,164,259
EXPENSE						
Program						
Ministry Support Services	2,028	1,754	1,754	1,795	1,795	1,795
Resource Development and Management	59,127	68,477	68,477	69,714	69,714	69,714
Energy Regulation	93,429	106,501	109,701	109,768	112,768	114,768
Orphan Well Abandonment	8,439	8,000	17,900	10,000	10,000	10,000
Valuation Adjustments and Other Provisions	584	35	35	35	35	35
MINISTRY EXPENSE	163,607	184,767	197,867	191,312	194,312	196,312
Gain (Loss) on Disposal and Write Down of Capital Assets	(1,205)	-	-	-	-	-
NET OPERATING RESULT	7,257,014	4,886,492	7,632,292	4,876,947	4,414,947	3,967,947

CONSOLIDATED NET OPERATING RESULT

(thousands of dollars)

	Comparable 2002-03 Actual	Comparable 2003-04 Budget	Comparable 2003-04 Forecast	2004-05 Estimates	2005-06 Target	2006-07 Target
Ministry Revenue	7,421,826	5,071,259	7,830,159	5,068,259	4,609,259	4,164,259
Inter-ministry consolidation adjustments	(780)	-	-	-	-	-
Consolidated Revenue	7,421,046	5,071,259	7,830,159	5,068,259	4,609,259	4,164,259
Ministry Program Expense	163,607	184,767	197,867	191,312	194,312	196,312
Inter-ministry consolidation adjustments	(780)	-	-	-	-	-
Consolidated Program Expense	**162,827**	**184,767**	**197,867**	**191,312**	**194,312**	**196,312**
Gain (Loss) on Disposal and Write Down of Capital Assets	(1,205)	-	-	-	-	-
CONSOLIDATED NET OPERATING RESULT	7,257,014	4,886,492	7,632,292	4,876,947	4,414,947	3,967,947